Australian Government
Australian Taxation Office

Subdividing and amalgamating land

Subdividing land

If you subdivide a block of land, each block that results is registered with a separate title. For capital gains tax (CGT) purposes, the original land parcel is divided into two or more separate assets. Subdividing the land does not result in a CGT event if you retain ownership of the subdivided blocks. Therefore, you do not make a capital gain or a capital loss at the time of the subdivision.

However, you may make a capital gain or capital loss when you sell the subdivided blocks. The date you acquired the subdivided blocks is the date you acquired the original parcel of land and the cost base of the original land is divided between the subdivided blocks on a reasonable basis.

See also:

For information on what is considered 'a reasonable basis', see TD 97/3 (/law/view/document?DocID=TXD/TD973/NAT/ATO/00001) – *Income tax: capital gains: if a parcel of land acquired after 19 September 1985 is subdivided into lots ('blocks'), do Parts 3-1 and 3-3 of the Income Tax Assessment Act 1997 treat a disposal of a block of the subdivided land as the disposal of part of an asset (the original land parcel) or the disposal of an asset in its own right (the subdivided block)?*

When the profit is ordinary income

Note: You may have made a profit from the subdivision and sale of land which occurred in the ordinary course of your business or which involved a commercial transaction or business operation entered into with the purpose of making a profit. In this case, the profit is ordinary income (see Taxation Ruling TR 92/3 (/law/view/document?DocID=TXR/TR923/NAT/ATO/00001) – Income *tax: whether profits on isolated transactions are income*). You reduce any capital gain from the land by the amount otherwise included in your assessable income.

Example

Land purchased before 20 September 1985, land subdivided after that date and a house built on the subdivided land

In 1983, Mike bought a block of land that was less than two hectares. He subdivided the land into two blocks in May 2015 and began building a house on the rear block, with the intention of using it as his home. The house was finished in August 2015 but he did not use it as his main residence. He sold the rear block (including the house) in October 2015 for $500,000. Mike got a valuation from a qualified valuer who valued the rear block at $300,000 and the house at $200,000. The construction cost of the house was $170,000.

Mike acquired the rear block before 20 September 1985, so it is not subject to CGT. As the new house was constructed after 20 September 1985 on land purchased before that date, the house is taken to be a separate asset from the land. Mike is taken to have acquired the house in May 2015 when he began building it. Mike made a capital gain of $30,000 ($200,000 – $170,000) when he sold the house because he did not use it as his main residence.

As Mike had owned the house for less than 12 months, he used the 'other' method to calculate his capital gain.

Dwelling purchased on or after 20 September 1985 and land subdivided after that date

Kym bought a house on a 0.2 hectare block of land in June 2015 for $700,000. The house was valued at $240,000 and the land at $460,000. Kym lived in the house as her main residence. She incurred $24,000 in stamp duty and legal fees purchasing the property.

Kym found the block was too big for her to maintain. In January 2016, she subdivided the land into two blocks of equal size. She incurred $20,000 in survey, legal and subdivision application fees and $2,000 to connect water and drainage to the rear block. In March 2016, she sold the rear block for $260,000.

As Kym sold the rear block of land separately, the main residence exemption does not apply to that land. She contacted several local real estate agents who advised her that the value of the front block was $30,000 higher than the rear block. Kym apportioned the $460,000 original cost base into $215,000 for the rear block (46.7%) and $245,000 for the front block (53.3%). Kym incurred $6,000 legal fees on the sale.

The cost base of the rear block is calculated as follows:

Cost of the land	$215,000
46.7% of the $24,000 stamp duty and legal fees on the purchase	$11,208
46.7% of the $20,000 cost of survey, legal and application fees	$9,340
Cost of connecting water and drainage	$2,000
Legal fees on sale	$6,000
Total	**$243,548**

The capital gain on the sale of the rear block is $16,452. She calculates this by subtracting the cost base ($243,548) from the sale price ($260,000). As Kym had owned the land for less than 12 months, she uses the 'other' method to calculate her capital gain.

Kym will get the full exemption for her house and the front block if they are used as her main residence for the full period she owns them.

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